

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 57938

CITY OF LAKE STEVENS

Snohomish County, Washington

January 1, 1995 Through December 31, 1995

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CITY OF LAKE STEVENS
Snohomish County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Mayor and City Council
City of Lake Stevens
Lake Stevens, Washington

We have audited the financial statements, as listed in the table of contents, of the City of Lake Stevens, Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 25, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the City of Lake Stevens is the responsibility of the city's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the city's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the city complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the city's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the city and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the mayor and city council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 25, 1996

CITY OF LAKE STEVENS
Snohomish County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Mayor and City Council
City of Lake Stevens
Lake Stevens, Washington

We have audited the financial statements of the City of Lake Stevens, Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 25, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the city, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal

control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the city in a separate letter dated October 25, 1996.

This report is intended for the information of management and the mayor and city council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 25, 1996

CITY OF LAKE STEVENS
Snohomish County, Washington
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. City Officials Should Establish Procedures To Provide For The Accountability Of All Police Department Citations

Our audit of the City of Lake Stevens' citation procedures during fiscal years 1994 and 1995 indicated that internal controls have not been established to account for all police department citations from issuance through disposition. As of October 1996, city officials have not provided the necessary procedures to achieve accountability.

There are no procedures established to ensure that the traffic violations bureau receives all citations issued by city officers. Nor are there procedures to track the disposition of citations that are sent to the district court. Absent the required controls, the city cannot ensure that all traffic fines owed are collected by the city or the court.

RCW 46.64.010 states in part:

. . . The chief administrative officer of every traffic enforcement agency shall . . . maintain or cause to be maintained in connection with every traffic citation issued by an officer under his supervision a record of the disposition of the charge by the court or its traffic violations bureau in which the original or copy of the traffic citation was deposited.

. . . Every record of traffic citations required in this section shall be audited monthly by the appropriate fiscal officer of the government agency to which the traffic enforcement agency is responsible.

We recommend the city's finance department establish procedures to ensure that all citations issued are received by the traffic violations bureau. We further recommend a record of disposition be maintained of all citations sent to the court.

Auditee's Response

The recommendations provided in this audit to improve accountability are fully supported by the City.

In light of the recommendations to improve internal controls, the Police Department will implement added controls so all citations will be accurately accounted for at all times and to ensure that the violations bureau receives all citations.

The Finance and Police Departments will also institute new procedures so that all citations will be tracked as to their disposition. This will be accomplished by modifying the current traffic violation bureau computer systems so that all citations include disposition information.

2. City Officials Should Establish Adequate Cash Reconciling Controls Between The General Ledger, Check Registers, And Bank Statements

- a. The City of Lake Stevens' Finance Director and Deputy Treasurer each maintain a check register to record all cash activity. The deputy treasurer's check register is posted daily and is used to monitor cash balances and determine the amount of investment transactions. The finance director's check register is posted monthly and is reconciled to the bank.

During our audit, we noted that the deputy treasurer's check register balance is not always in agreement with the finance director's register. In the 1995 check register, we noted several months where the deputy's cash balance is overstated by almost \$10,000. Our review of 1996 activity indicates that the deputy treasurer's balance is off by approximately \$4,000 for several months.

Apparently all transactions are not being posted to the deputy treasurer's check register or the transactions are being posted erroneously. Using incorrect cash balances as a basis for investment transactions can result in overdrawing funds or underinvestment of the city's excess funds.

- b. Each month, the bank statement is reconciled to the finance director's check register. The general ledger cash balances are also reconciled to the bank statement for all funds. Our audit of the finance director's December 31, 1995 reconciliation disclosed a \$2,316 discrepancy between the general ledger cash balance and the bank statement.

RCW 43.09.200 Division of Municipal Corporations - Uniform System of Accounting states in part:

The state auditor shall formulate, prescribe, and install a system of accounting and reporting for all local governments, which shall be uniform for every public office, and every public account of the same class.

The accounts shall show the receipt, use and disposition of all public property and the income, if any, derived therefrom; all sources of public income and the amount due and received from each source; all receipts, vouchers, and other documents kept or required to be kept necessary to isolate and prove the validity of every transaction

Unreconciled discrepancies between general ledger records and the bank statement reduce our reliance over the city's ability to accurately account for and report all cash activity.

City officials still have not allocated the appropriate financial management resources to establish and maintain a reconciliation between the cash balances in the general ledger and the bank statement/check register.

We recommend that city officials establish adequate cash reconciling procedures to accurately reflect all cash activity in a timely manner.

Auditee's Response

The city recognizes and concurs that we should have adequate reconciling controls between the different pieces of our financial system. It is the basis for complete and accurate reporting of all financial transactions and information. We also recognize this finding has been made in prior audits.

We recognize that reconciling various portions of the financial system is a staff responsibility in the City's Finance office. We also note that the ease, efficiency and accuracy of reconciling these transactions is directly affected by the quality (or lack) of the financial software supporting the City's financial records.

The finance department will complete all reconciliations of the general ledger and cash up through the current month. To keep the process current, the Finance Director/Treasurer will complete the reconciliations within thirty days of the previous month's end and will provide a written report to the City Administrator for when this reconciliation is complete.

The City will also initiate the process to select a new financial management software package. This package will contain modules to process vouchers, receipts, general ledger, utility billing, and fixed assets. The software will also be capable of an upgrade from a Category II to Category I city designation which will allow the City to switch from a cash-basis accounting system to a modified accrual basis system when it reaches a population of 8,000. The City will plan and evaluate the different packages in 1997 and budget for the purchase of a new system in 1998.

Auditor's Concluding Remarks

We appreciate the officials' commitments to resolve the issues noted in our findings. Based on the responses, the recommendations are being addressed and we will review these areas in our next audit of the city.

CITY OF LAKE STEVENS
Snohomish County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Financial Statements And Additional
Information**

Mayor and City Council
City of Lake Stevens
Lake Stevens, Washington

We have audited the accompanying statements of Fund Resources and Uses Arising from Cash Transactions of the various funds of the City of Lake Stevens, Snohomish County, Washington, for the fiscal year ended December 31, 1995. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the city prepares its financial statements on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the recognized revenues and expenditures of the funds of the City of Lake Stevens for the fiscal year ended December 31, 1995, on the cash basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term Debt and Schedule of State Financial Assistance are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 25, 1996, on our consideration of the city's internal control structure and a report dated October 25, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

October 25, 1996

CITY OF LAKE STEVENS
Snohomish County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Mayor and City Council
City of Lake Stevens
Lake Stevens, Washington

We have audited the financial statements of the City of Lake Stevens, Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 25, 1996. These financial statements are the responsibility of the city's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the City of Lake Stevens taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

October 25, 1996

CITY OF LAKE STEVENS
Snohomish County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Mayor and City Council
City of Lake Stevens
Lake Stevens, Washington

We have audited the financial statements of the City of Lake Stevens, Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 25, 1996.

We have applied procedures to test the city's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

The following requirement was determined to be not applicable to its federal financial assistance programs:

- Including subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the city's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the city had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the mayor and city council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 25, 1996

CITY OF LAKE STEVENS
Snohomish County, Washington
January 1, 1995 Through December 31, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Nonmajor Federal Financial Assistance Program Transactions

Mayor and City Council
City of Lake Stevens
Lake Stevens, Washington

We have audited the financial statements of the City of Lake Stevens, Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 25, 1996.

In connection with our audit of the financial statements of the city and with our consideration of the city's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures and approvals and environmental reviews that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the city's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the City of Lake Stevens had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the mayor and city council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 25, 1996

CITY OF LAKE STEVENS
Snohomish County, Washington
January 1, 1995 Through December 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Mayor and City Council
City of Lake Stevens
Lake Stevens, Washington

We have audited the financial statements of the City of Lake Stevens, Snohomish County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 25, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the city's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated October 25, 1996.

The management of the city is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the

structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Cash disbursements
 - Receivables
 - Accounts payable
 - Purchasing and receiving
 - Payroll
 - General ledger
- **General Requirements**
 - Political activity
 - Davis-Bacon Act
 - Civil rights
 - Cash management
 - Relocation assistance and real property acquisition
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements
- **Specific Requirements**
 - Types of services
 - Reporting
 - Special requirements
- **Claims For Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Inventory control
 - Property, plant, and equipment
- **General Requirements**
 - Subrecipient monitoring
- **Specific Requirements**
 - Eligibility
 - Matching, level of effort, earmarking

- **Claims For Advances**

During the fiscal year ended December 31, 1995, the city had no major federal financial assistance programs and expended 97 percent of its total federal financial assistance under the following nonmajor federal financial assistance program: Community Development Block Grant (CFDA 14.218).

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the aforementioned nonmajor program. Our procedures were less in scope than would be necessary to render an opinion on these internal control structures policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses, as defined above.

We noted certain matters involving the internal control structure and its operation that we have reported to the management of the city in a separate letter dated October 25, 1996.

This report is intended for the information of management and the mayor and city council and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

October 25, 1996

CITY OF LAKE STEVENS
Snohomish County, Washington
January 1, 1995 Through December 31, 1995

Status Of Prior Findings

The findings contained in the prior audit report were resolved as follows:

1. The City's Finance Department Should Reconcile The General Ledger Cash Balances To The Bank On A Monthly Basis

Resolution: This issue has not been resolved. Please refer to the finding located under the management section of our audit report.

2. City Officials Should Establish Procedures To Provide For The Accountability Of All Police Department Citations

Resolution: This issue has not been resolved. Please refer to the finding located under the management section of our audit report.

3. Internal Controls Used To Prepare The Schedules Of Federal And State Financial Assistance Should Be Improved

Resolution: This has been resolved.